

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

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USIA-06 SAJ-01 EB-04 COME-00 TRSE-00 FRB-01 /061 W

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TO SECSTATE WASHDC 5595

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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E.O. 11652: N/A

TAGS: ELAB, UK, PINT

SUBJECT: TOUGH TALK BY WILSON ON SOCIAL CONTRACT FORMS

BACKDROP FOR BUDGET AND PRESAGES TOUGHER POLICIES AHEAD

REF: (A) LONDON 14303; (B) LONDON 11319; (C) LONDON 12669

1. BEGIN SUMMARY: PRIME MINISTER WILSON HAS ADDED THE
STRENGTH OF HIS OWN POWERFUL VOICE TO THE GENERAL ORCHE-
STRATION BY HIS GOVERNMENT (REF A) OF WARNINGS THAT IT
IS ESSENTIAL THAT ALL SECTORS OF THE SOCIETY (E.G., TRA-
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DE UNIONS, INDUSTRY, THE FINANCIAL AND BANKING COMMUNITY)

COOPERATE IN ACCEPTING THE BASIC SOCIO-ECONOMIC PREMISE OF THE SOCIAL CONTRACT. MR. WILSON'S DECLARATION (FULL TEXT BEING POUCHED) CAME ON THE EVE OF THE CHANCELLOR OF THE EXCHEQUER'S BUDGET SPEECH TO THE PARLIAMENT (TO BE REPORTED SEPARATELY) AMIDST A BURGEONING OF GLOOMY ECONOMIC STATISTICS AND THE LIKELIHOOD THAT ONCE AGAIN THE MINERS COULD WELL BE AT THE CENTER OF ANOTHER INDUSTRIAL CRISIS THIS WINTER. END SUMMARY

2. MR. WILSON, WHO SPOKE AT THE LORD MAYOR'S BANQUET AT THE GUILDHALL LAST NIGHT (NOVEMBER 11) BORROWED HEAVILY FROM HIS ADDRESS TO THE TUC CONGRESS IN BRIGHTON LAST SEPTEMBER (REF B), WHERE HIS WARNINGS ON THE GRIM DAYS AHEAD FOR THE ECONOMY MAY HAVE BEEN LOST IN THE GENERAL EUPHORIA AND "ON TO VICTORY" ATMOSPHERE WHICH PREVAILED. LAST NIGHT -- IN A MUCH MORE GLOOMY SETTING -- THE PRIME MINISTER REITERATED HIS STATEMENT TO THE TUC: "... BECAUSE OF THE CRISIS WE FACE, INCLUDING THE OIL SURCHARGE, WE CANNOT EXPECT ANY SIGNIFICANT INCREASE IN LIVING STANDARDS OVER-ALL IN THE NEXT YEAR OR TWO; INDEED, IT WILL BE A TREMENDOUS CHALLENGE TO OUR STATESMANSHIP EVEN TO MAINTAIN AVERAGE LIVING STANDARDS."

3. AS HE DID AT BRIGHTON, MR. WILSON STRONGLY EMPHASIZED THE THEME OF INTERDEPENDENCY AND UNITY, OF THE NEED OF HIS GOVERNMENT TO HAVE A VIGOROUS, RESPONSIBLE AND PRIVATE SECTOR WORKING WITH IT, OF BRINGING TOGETHER THE INTEREST OF MANAGEMENT AND WORKERS, AND OF "BUILDING BRIDGES" BETWEEN THE FINANCIAL COMMUNITY AND INDUSTRY. HE MADE IT VERY CLEAR, HOWEVER, THAT SUCH UNITY AND COOPERATION HAD TO BE BASED ON ACCEPTANCE OF THE SOCIAL CONTRACT, AND OF ITS EXTREMELY IMPORTANT OBLIGATIONS. THE SOCIAL CONTRACT WAS NOT SOMETHING FROM WHICH THE DIFFERENT INTEREST GROUPS COULD PICK AND CHOOSE, HE SAID, DISCARDING WHAT THEY DID NOT LIKE.

4. HIS MESSAGE TO INDUSTRY WAS THAT IT COULD NOT SAY: "WE LIKE THE TUC WAGE GUIDELINES BUT NOT PUBLIC OWNERSHIP OF DEVELOPMENT LAND AND PUBLIC PARTICIPATION IN NORTH SEA OIL - SO WE WILL TAKE WHAT WE CAN GET ON WAGES LIMITED OFFICIAL USE

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AND IGNORE THE REST." TO THE TRADE UNION MOVEMENT HIS MESSAGE WAS THAT IT COULD NOT SAY: "WE LIKE WHAT YOU ARE DOING FOR THE PENSIONERS, THE SICK AND THE DISABLED; WE LIKE WHAT YOU ARE DOING ABOUT THE EXTENSION OF PUBLIC OWNERSHIP, BUT WE DO NOT LIKE THE GUIDELINES ON WAGES." AS THE PRIME MINISTER DESCRIBED IT, THE SOCIAL CONTRACT, IF IT WERE TO BE MEANINGFUL IN DEALING WITH THE PROBLEMS OF THE ECONOMY, HAD TO BE CONSIDERED A SINGLE, COHERENT

WHOLE.

5. IN STRESSING THE GRAVITY OF THE ECONOMIC CRISIS,
WILSON AGAIN EMPHASIZED THE URGENT NEED TO DIVERT RESOUR-
CES TO FOREIGN TRADE AND INVESTMENT. HE ALSO NOTED THAT
THE UK IN ITS DEFENSE REVIEW WILL "HAVE TO LOOK AFRESH AT
OUR TRADITIONAL COMMITMENTS, SO AS TO ENSURE OVER THE
YEARS AHEAD A REDUCTION IN THE ECONOMIC BURDEN OF DEFENSE
TO A PERCENTAGE OF OUR GROSS NATIONAL PRODUCT CLOSER TO
THAT OF OUR NEIGHBORS AND ALLIES... WHILE MAINTAINING AN
ADEQUATE AND EFFECTIVE CONTRIBUTION TO THE ALLIANCE..."

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6. MR. WILSON ALSO TOUCHED BRIEFLY ON THE EUROPEAN COMMUNITY STATING: "I HAVE ALWAYS TAKEN THE VIEW... THAT GIVEN THE RIGHT TERMS THERE CAN BE REAL ADVANTAGE FOR BRITAIN AND FOR EUROPE, IN OUR ACTIVE MEMBERSHIP. BUT EQUALLY, IF THE TERMS ARE CRIPPLING... THEN THE BALANCE OF ADVANTAGE TO US HERE IN BRITAIN - AND TO EUROPE, COULD BE LOST. IT IS NOT A THEOLOGICAL ISSUE."

7. THE WILSON SPEECH WAS MADE ON THE EVE OF WHAT IS EXPECTED TO BE A TOUGH BUDGET STATEMENT FROM CHANCELLOR
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OF THE EXCHEQUER DENIS HEALEY, AND AMIDST SEVERAL GLOOMY REPORTS AND STATISTICS ABOUT THE ECONOMY. A CBI STUDY, REPORTED INTER ALIA IN THE FINANCIAL TIMES (NOVEMBER 12), PREDICTS THAT IF THERE IS NO BOOST FROM THE BUDGET, THE CBI WOULD EXPECT TO SEE INDUSTRIAL INVESTMENT FALL BY AT LEAST 10 PERCENT NEXT YEAR. IN ADDITION, GOVERNMENT STATISTICS RELEASED YESTERDAY INDICATE THAT A) COST OF INDUSTRY RAW MATERIALS AND FUELS INCREASED IN OCTOBER BY 38 PERCENT OVER A YEAR AGO; B) WHOLESALE PRICES ROSE BY 16 PERCENT OVER A YEAR AGO; C) INDUSTRIAL PRODUCTION DROPPED BY 1 PERCENT IN JULY-SEPTEMBER 1974 FROM AUGUST-OCTOBER 1973; AND D) RETAIL SALES, WITH ALLOWANCE FOR INFLATION, WERE ALMOST FLAT DURING RECENT MONTHS.

8. TO ADD TO THE GOVERNMENT'S DEEPENING CONCERN, THE ODDS ARE THAT THE MINERS, WHO ARE BALLOTING THIS WEEK (REF C) ON A COAL BOARD PRODUCTIVITY PROPOSAL, WILL REJECT IT. IF THIS HAPPENS, IT WILL RESULT IN VERY TOUGH NEGOTIATIONS IN THE NEXT WAGES ROUND AND ANOTHER POSSIBLE CONFRONTATION THIS WINTER -- THIS TIME WITH A LABOR GOVERNMENT.

9. LAST WEEK, SECRETARY OF STATE FOR EMPLOYMENT MICHAEL FOOT ALSO TOOK A HARD LINE IN PARLIAMENT TO SHORE UP THE SOCIAL CONTRACT, WHEN HE CRITICIZED THE RECENT FORD AND SCOTTISH LORRY DRIVER SETTLEMENTS AND EMPHASIZED THE NEED FOR UNIONS AND INDUSTRY TO ADHERE TO STRICT INTERPRETATION OF THE WAGE GUIDELINES PROMULGATED BY THE TUC. WHILE REJECTING UNEMPLOYMENT AS A SOLUTION TO INFLATION, HE TOO WARNED THE UNIONS THAT IF THE SOCIAL CONTRACT WERE TO GO BY THE BOARDS IT WOULD MAKE THE FIGHT AGAINST UNEMPLOYMENT MORE DIFFICULT AND WOULD INJURE THE SOCIAL SERVICES.

10. NEITHER FOOT NOR ANYONE ELSE IN THE LABOR GOVERNMENT

HAS VEERED FROM THEIR POSITION OF OPPOSITION TO A STATUTORY INCOMES POLICY OR TO A WAGE FREEZE. BUT THERE ARE SOME OBSERVERS WHO BELIEVE THAT THE GOVERNMENT MAY INCREASINGLY BE FORCED TO RECONSIDER ITS POSITION IN THIS MATTER -- OR FIND SOME ALTERNATIVE -- OTHER THAN LETTING NATURE OR UNEMPLOYMENT TAKE ITS COURSE -- TO MEET THE LIMITED OFFICIAL USE

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MOUNTING DANGER TO THE STABILITY OF THE ECONOMY. THE ORCHESTRATION OF THE BLEAK THEME OF GRIM DAYS AHEAD BY THE PRIME MINISTER NOT ONLY PROVIDES A BACKDROP FOR THE BUDGET SPEECH TODAY (NOVEMBER 12) BUT ALSO COULD SET THE SCENE FOR A RETURN TO A HARSHER CONTROL SYSTEM LATER IF THE SOCIAL CONTRACT FAILS AS A CENTRAL DEVICE OF GOVERNMENT POLICY.

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